

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AGR-10 FEA-01 AID-05 CIAE-00

COME-00 EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00

XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 ABF-01 ( ISO ) W

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P 171339Z JUL 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 1319

UNCLAS SECTION 01 OF 02 PARIS 18440

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: RETURN OF THE FRANC TO THE "EUROPEAN MONETARY SNAKE"

2. RE WIDMAN-DYCHE TELECON FOLLOWING IS A TRANSLATION OF THE FINANCE MINISTRY PRESS RELEASE REQUESTED. SEVERAL INITIAL PARAGRAPHS GIVING TECHNICAL DETAILS ON THE BASEL AGREEMENT AND ITS APPLICATION HAVE BEEN OMITTED:

1. RETURN OF THE FRANC TO THE EUROPEAN MONETARY SNAKE: IN ACCORD WITH ITS EUROPEAN PARTNERS, THE GOF HAS DECIDED TO RESUME APPLICATION OF THE BASEL AGREEMENT OF APRIL 21, 1972, ESTABLISHING A MECHANISM FOR NARROWING THE MARGINS OF FLUCTUATION AMONG THE CURRENCIES OF THE EEC, BETTER KNOWN BY THE NAME OF "EUROPEAN MONETARY SNAKE." THIS DECISION GOES INTO EFFECT AS OF JULY 10, 1975. (THREE BACKGROUND PARAS ON THE BASEL AGREEMENT AND ITS APPLICATION ARE OMITTED.)

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IN LEAVING THE SNAKE, THE GOF INDICATED THAT IT HAD

BEEN A QUESTION OF A TRANSITORY SITUATION AND THAT ITS GOAL HAD BEEN TO REINSTATE THE MECHANISM WHEN CONDITIONS SHOULD PERMIT.

THE RETURN OF THE FRANC TO THE SNAKE PROVIDES A TRIPLE SATISFACTION:

CONFIRMATION OF THE RETURN TO INTERNAL AND EXTERNAL BALANCE:

REGARDING PRICES, INFLATION HAD REACHED 4.2 PERCENT DURING THE FIRST QUARTER OF 1974. THE LATEST THREE MONTHS FOR WHICH DATA ARE KNOWN (MARCH-APRIL-MAY 1975) SHOW A QUARTERLY RATE OF INCREASE OF 2.4 PERCENT. FRANCE IS CURRENTLY AT A LEVEL OF PRICE INFLATION CLOSE TO THAT OF COUNTRIES LIKE THE FRG AND THE NETHERLARDS, WHICH HAVE SUCCEEDED IN HOLDING THE LOWEST RATES IN THE EEC.

-- WHILE THE YEAR 1974 RESULTED IN A TRADE DEFICIT OF 17 BILLION FRANCS AND A BALANCE OF PAYMENTS DEFICIT OF 28 BILLION FRANCS ON CURRENT ACCOUNT, THE FIRST FIVE MONTHS OF 1975 YIELDED A TRADE SURPLUS OF 5 BILLION FRANCS. IN THE FIRST QUARTER OF THIS YEAR THE CURRENT ACCOUNT BALANCE WAS CLOSE TO EQUILIBRIUM.

THIS EXTERNAL AND INTERNAL REHABILITATION SHOWS A STRENGTHENING IN THE POSITION OF OUR CURRENCY.

-- OUR FOREIGN EXCHANGE RESERVES, WHICH HAD REGISTERED A DECLINE IN THE FALL OF 1973, HAVE BEEN RESTORED. PUBLIC HOLDINGS IN CURRENCY AND FRENCH CLAIMS ON THE IMF MOVED FROM 17,980 MILLION FRANCS AT THE END OF 1974 (FOOTNOTE 1 -- BASED ON THE THEORETICA PARITY OF THE DOLLAR, I.E., FF 4.60) TO 24,613 MILLION FRANCS AT THE END OF JUNE 1975 (FOOTNOTE 2 -- BASED ON THE NEW SYSTEM OF ACCOUNTING FOR OFFICIAL ASSETS, INSTITUTED AT THE BEGINNING OF 1975, WHICH TAKES INTO ACCOUNT CHANGES IN THE VALUE OF THE DOLLAR ON THE FOREIGN EXCHANGE MARKET, I.E., FF 4.00 AS OF JUNE 30, UNCLASSIFIED

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1975.)

IN PARALLEL FASHION, THE FRANC HAS STRENGTHENED ON FOREIGN EXCHANGE MARKETS. ON MAY 3, 1974, IT HAD DECLINED ABOUT 13 PERCENT RELATIVE TO THE SNAKE. SINCE THEN, ITS RISE WAS STEADY. AT THE END OF 1974, THE GAP BETWEEN IT AND THE LOWER LIMIT OF THE SNAKE WAS NO MORE THAN 6 PERCENT. ON MAY 16, IT RETURNED DE FACTO TO

WITHIN THE SNAKE WHERE IT HAS REMAINED SINCE.

IT SEEMED LOGICAL TO LEGALLY ENSHRINE THIS  
SPONTANEOUS RETURN OF THE FRANC INTO THE SNAKE.

THE ATTACHMENT OF FRANCE TO THE PROGRESS OF THE ECONOMIC

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INFO OCT-01 ISO-00 EURE-00 AGR-10 FEA-01 AID-05 CIAE-00

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XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 ABF-01 /110 W

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 1320

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AND MONETARY UNION:

-- A BETTER CONVERGENCE OF ECONOMIC POLICIES HAS  
BEEN ACHIEVED. FOR ITS PART, FRANCE HAS CONTRIBUTED TO  
IT BY THE MEASURES OF ECONOMIC AND FINANCIAL STABILIZA-  
TION UNDERTAKEN IN JUNE 1975 (SIC), AND BY THE  
MEASURES OF SUPPORT FOR ECONOMIC ACTIVITY UNDERTAKEN AT  
THE BEGINNING OF 1975 AND ESPECIALLY ON APRIL 23. THE  
RETURN OF THE FRANC INSERTS ITSELF IN THIS CONVERGENCE.

--FRANCE IS MOREOVER ATTACHED TO THE STRENGTHENING  
OF THE ECONOMIC AND MONETARY UNION. IN SEPTEMBER 1974,  
THE FRENCH PRESIDENT ISSUED A MEMORANDUM ALONG THESE

LINES. AT ITS INITIATIVE, THE EEC COUNCIL OF MINISTERS  
DECIDED TO STUDY THE POSSIBILITY OF ISSUING LOANS TO  
FINANCE THE BALANCE OF PAYMENTS DEFICITS OF SOME OF ITS  
MEMBERS; ALSO ON ITS PROPOSAL, A TRULY EUROPEAN UNIT OF  
ACCOUNT WAS CREATED.

THE RETURN OF THE FRANC INTO THE SNAKE BEARS  
WITNESS TO FRENCH ATTACHMENT TO A MECHANISM OF A  
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COMMUNITY NATURE, WHICH CONSTITUTES ONE IMPORTANT  
STAGE IN THE CREATION OF THE ECONOMIC AND MONETARY UNION.  
THIS RETURN IS ACCCOMPANIED BY AN IMPROVEMENT IN THE  
CONDITIONS OF TECHNICAL OPERATION OF THE MECHANISM: IN  
PARTICULAR, AT ITS REQUEST, IT WAS PERMITTED THAT THE  
EARLIEST AND MOST SIGNIFICANT INTERVENTIONS COULD ALLOW  
TO BE AVOIDED AND FORESTALLED EXCESSIVELY STRONG  
PRESSURES OF CURRENCIES; LIKEWISE THE DELAYS OF CREDITS  
GRANTED AMONG CENTRAL BANKS FOR REGULATION OF BALANCES  
RESULTING FROM INTERVENTIONS COULD BE AUTOMATICALLY  
EXTENDED TO 3 MONTHS.

AFFIRMATION OF THE PRINCIPAL GOAL, WHICH IS THE RETURN  
TO A STABLE EXCHANGE RATE:

IN A WORLD CHARACTERIZED BY THE DISORDERED  
FLOATING OF CURRENCIES, THE SNAKE NOW APPEARS TO BE AN  
AREA OF STABILITY WHICH OUGHT TO BE PRESERVED AND  
STRENGTHENED.

-- THE MONETARY STABILITY IN EUROPE WILL BE  
REINFORCED BY THE RETURN, FOLLOWING THE FRANC, OF THE  
OTHER CURRENCIES WHICH SUSPENDED APPLICATION OF THE  
BASEL AGREEMENT. THE ARRANGEMENTS PROPOSED BY THE  
FRENCH PRESIDENT IN SEPTEMBER 1974 AND WHICH FORESAW  
THE CREATION OF A NEW, RECEPTIVE STRUCTURE COULD  
FACILITATE SUCH A RETURN.

-- THIS STRENGTHENING COULD BE REALIZED BY THE  
ESTABLISHMENT OF A COMMUNITY LEVEL OF THE DOLLAR.  
INDEED THE UNCONTROLLED FLOAT OF THE DOLLAR REPRESENTS  
A GENUINE THREAT, AS MUCH FOR THE DEVELOPING COUNTRIES  
AS FOR THE INDUSTRIALIZED COUNTRIES.

IN PARTICULAR, THE UNDER-VALUATION OF THE DOLLAR  
RELATIVE TO THE WHOLE OF EUROPEAN CURRENCIES AND THE  
CONSEQUENCES WHICH FLOW FROM IT FOR THE SCHEME OF INTER-  
NATIONAL TRADE IS A SOURCE OF DEEP ANXIETY FOR EUROPEAN  
COUNTRIES.

THUS THE ESTABLISHMENT OF A COMMUNITY VALUE FOR

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THE DOLLAR AT AN APPROPRIATE LEVEL IS A GOAL WHICH THE  
GOF WILL FOLLOW WITHIN THE COMMUNITY. ONLY THE  
STRENGTHENING OF EUROPEAN SOLIDARITY PERMITS HOPE FOR  
EFFECTIVE ACTION IN THIS AREA.

THUS THE RETURN OF THE FRANC INTO THE SNAKE  
ENSHRINES THE RE-ESTABLISHMENT OF EQUILIBRIUM IN THE  
FRENCH ECONOMY. MOREOVER, IT ATTESTS TO THE CONCERN  
OF THE GOF WITH EFFECTIVELY CONTRIBUTING TO THE  
CREATION OF A WORLD MONETARY ORDER BASED ON STABILITY  
AND EQUITY.

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